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Analysis of Effective Utilization of Funds

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ABSTRACT: *This paper investigates the necessity of effective utilization of funds. Financial Management involves critical management of funds. This simply implies optimizing monetary resources to meet with unavoidable risk cover and expenses. The management of finance is crucial to personal and business welfare! Financial Management means putting together the economic resources at hand to make efficient use of them and taking decisions that can successfully culminate in acquiring more assets for the family or business. With effective management of funds, you can even attract finance to meet the short term and long term requirement of the family or firm. The whole process is intense and deals with the selection of specific or a combination of assets to deal with a financial issue, if any.*

KEYWORDS: *Financial Management, Effective utilization, Effective management*

I. INTRODUCTION

Finance is indispensable to every kind of business and hence it is rightly said to be the life blood of a business. Business finance is the activity concerned with the estimation, raising and administrating the funds to be used in business enterprises.

Financial Management is concerned with the acquisition, financing and management of assets with some overall goal in mind. It is the process of planning decisions in order to maximize the owner's wealth. Therefore Financial management is the management and control of money and money related operations within a business.

In recent years, the changing regulatory and economic environment coupled with the globalization of business activities have increased the complexity as well as the importance of the financial activity. As a result, the financial management function has become more demanding and complex.

Therefore Financial Management is the planning, organizing, directing and controlling the financial activities such as procurement and utilization of funds of the enterprise. It means applying general management principles to financial resources of the enterprise.

There are two basic function of financial management is acquisition of external funds as well as the efficient and wise allocation of funds to various uses.

II. EFFECTIVE UTILIZATION OF FUNDS

With the growth of business boundaries to global area. The role of finance manager is becoming more complex, technical and more important in steering the organization wheels in proper direction. One of the role of financial manager includes effective utilization of funds. He has to select an investment pattern is related to the use of funds. The funds should be spent on fixed assets and then an appropriate portion will be retained for working capital. While investing the amount on fixed assets, decision making techniques like capital budgeting, opportunity cost analysis etc may be applied and principles of safety, liquidity, profitability etc should be considered.

1) Fund will be invested on Fixed Asset : The funds are to be investing in fixed assets is usually an investment in the future and the value of the investment will depreciate over time (this is a good thing). As investments depreciate, the return on the investment increases. And also the company can produce optimum level.

2) Fund will be invested on Current Asset : It is concerned with allocation of funds among various short term assets. For this we can use working capital management. The firm must keep in view the need for adequate working capital, and they do not keep too much funds blocked in inventories, book debts, cash etc.

III. FINANCIAL PLANNING

The Finance Manager has to estimate the financial requirements of the company. The manager should determine the sources from which capital can be raised and determine how effectively and judiciously these funds are put into use so that repayments can be done in time. Financial planning is deciding in advance the course of action for future. Financial planning includes:

1) Requirement of assets (fixed).
2) Investment in intangible assets like patents, copyrights, etc.
3) Amount required for current assets like stocks, cash, bank balances, etc.
4) Cost of set-up and likely expenses to be incurred on the new issue of shares and debentures.

The financial planning process involves the following steps:

1. Projection of financial statements

Financial statements are the company's profit and loss account and the balance sheet. The statements can be prepared for a certain period of future time and they help the manager to determine the amount of fund requirements.

2. Determination of funds needed:

The estimations are drawn in terms of sales of product, the cost of production, marketing activities, etc., Finance Manager can draw up a plan as to the fund requirement based on the time factor. He can know whether the funds are to be procured on a short term basis or on a long term basis.

3. Forecast the availability of funds

A company will have a steady flow of funds. If the manager is able to forecast these amounts properly, then the moneys to be borrowed can be reduced, thus saving on the interest payments.

4. Establish and maintain control system:

Control system is ineffective without adequate planning and the adequacy of planning can be gauged only through proper control measures. Both these activities are essential for effective utilization of funds.

5. Develop procedures:

There should be a procedure for basic plans to achieve. Financial Management involves critical management of funds and implies optimizing monetary resources to meet with unavoidable risk cover and expenses. Financial Management puts together the economic resources at hand to make efficient use of them and taking decisions that can successfully culminate in acquiring more assets for the family or business. With effective management of funds, it is possible to attract finance to meet the short term and long term requirement of firm.

IV. FINANCIAL MANAGEMENT ANALYSIS

The analysis deals with the calculated and predicted cash inflow and outgoings. The analysis is directed towards the study of the effect of existent funds on managerial objectives. Financial management handles everything from procuring the funds to effective utilization of the same. Dedicated analysis handles procurement of funds from multiple sources and since the funds are from different sources, they naturally need to be addressed considering the difference with regards to the potential risk and control.

Management of business funds should ideally capitalize on equity capital, in spite of it being the most expensive source of funds. Effective management of finances involves calculation of risk, cost and control and maintaining the cost of funds at minimum. This is done with the intent of establishing a proper balance between the involved risk and optimized control.

Utilization of Funds

Financial management cannot be addressed without first designing a strategy to ensure the proper utilization of funds. This helps to evade situations in which the funds remain idle or lack of profitable utilization of funds in hand. When availing of funds for the business it is important to understand the involved cost and risk factors. Wastage of funds will only result in the business short and long-term objectives not being met and ultimately - loss! The funds existent within the business should be critically reviewed from time to time and employed properly and profitably.

V. SCOPE AND EXTENT

The imperatives sound financial management in all types of organizations, to guarantee efficient use of all resources. Research reveals that many firms liquidate because of mismanagement of funds and not, as it is commonly believed, because of obsolete technology or the lack of skilled labor. Financial management is designed and customized according to different client needs to optimize output from the assessed fund input. In a situation where resources seem scarce and the demand for funds is high, proper financial management is an absolute necessity.

The objectives of efficient financial management include maximization of profit. However, profit maximization is a limited objective and if it becomes the sole focus, then the approach only leads to more problems! Profit maximization must take into consideration the relationship between risk and profit and work towards achieving a balance. The value of a business is analyzed on the evaluation of the stock market price. Financial management should take into account present and expected future income and the dividend policy of the firm to come up with a near perfect understanding of the company's progress potential.

Cash Pooling

Providing a business has excellent cash visibility, cash pooling can be an effective way to optimize the use of surplus funds. The practice of moving cash around accounts to benefit from the very best credit and debit positions possible can help corporations to increase their interest returns. Cash pooling will also help them to minimize their exposure to unnecessary borrowing and protect against negative bank balances, which can impact both their finances and their reputation.

From an administrative point of view, cash pooling can benefit firms as they can concentrate all activity on a single account, where sufficient funds are always in place. This way they don’t incur unnecessary bank fees and can generate income from interest paid on larger balances.

These assets can then be used to help grow the company or provide a strong buffer in the event of further economic downturns.

Intra-company Netting

Similarly, intra-company netting – offsetting cash flows between corporate bank accounts to minimize the overall number of transactions required – also helps businesses to optimize the use of their surplus funds by reducing the cost of carrying out cross-border business. Global firms need to bear these costs in mind and those that practice netting reduce this financial burden by settling costs incurred when cash is moved between international business units belong to the same corporation. Minimizing foreign exchange exposures by offsetting accounts receivable and accounts payable within the same business can help enhance assets.

Cash Visibility

All this is only possible by gaining a high level of cash visibility, so that a treasury department has immediate insight into their international bank balances whenever they need it. Chief Financial Officers are increasingly being asked to achieve more with less and this is why optimal use of available funds is so essential in today’s business world. Companies are expanding overseas and are finding themselves with complex cash positions that need to be tracked and optimized at all times and this is a challenge too far for many. As a result, some resort to easy options, such as dividend payments, instead of maximizing returns from the surplus they are generating.

By implementing a treasury management solution, businesses gain an enhanced level of cash visibility, which equips them with the insight they need to turn their surplus into some serious profit.

VI. MEANING OF FINANCIAL MANAGEMENT

Finance is the lifeblood of every business; management of it requires special attention. Financial management is that activity of management which is concerned with the planning, procuring and controlling of the firm's financial resources.

During 1930s and 1940s, there was a concern of raising adequate funds and maintaining liquidity for sound financial structure. This is also known as 'Traditional Approach' of procurement and utilization of funds required by a firm. Thus, it is regarded as an art and science of rising and spending of funds. In the words of Paisco**,** "In a modern money using economy, finance is defined as the provision of money at the time when it is needed." The traditional approach emphasized the acquisition of funds and ignored efficient allocation and constructive use of funds. It does not give sufficient attention to the management of working capital.

During 1950s, the need for profitable allocation of scarce capital resources was recognized and in 1960s and 1970s many analytical tools and concepts like funds flow statement, ratio analysis, cost of capital, earning per share, optimum capital structure, portfolio theory etc. were emphasized. As a result, a broader concept of finance began to be used. Thus, the modern approach to finance emphasizes the proper allocation and utilization of funds in addition to their economical procurement. Thus, business finance, in the words of Authman and Dongall**,** may broadly be defined as "activity which is concerned with the planning, raising, controlling and administering of funds used in the business." Modern business finance includes the following

1) Determining the capital requirements of the firm.
2) Raisin of sufficient funds to make an ideal or optimum capital structure
3) Allocation of funds among various types of assets
4) Financial control so as to ensure efficient use of funds.

VII. CORPORATION FINANCE

The important area of finance is the corporate finance as the big business firms require a huge capital which is procured from the market/public. An efficient use of funds is very essential. Huge business houses are employing expertise to raise and utilize finance from various sources. The corporate finance refers to the planning, raising, administrating and controlling. Thus, it refers to planning, raising, administrating and financing of expansion of business and the financial adjustments.

VIII. OBJECTIVES OF FINANCE FUNCTION

For optimum financial decisions, the objectives of financial management shall be clearly defined in to two types, namely; Profit Maximization and Wealth Maximization. It should be laid down that they contribute directly towards the achievement of overall business objectives. Objectives provide a normative framework within which a firm is to take decisions. The functional area of objective of the business and contribute directly towards it. The main objectives of a business are survival and growth. In order to survive ups and downs in the business, the business must earn sufficient profits and it should also maintain proper relations with shareholders, customers, suppliers and other social groups. The financial management of an organization must seek to achieve the following objectives:

1) Ensuring adequate and regular supply of funds.
2) To provide a fair rate of return to the shareholders.
3) To ensure effective utilization of funds by maintaining proper balance between profitability, liquidity and safety.
4) To generate and build up sufficient surplus for expansion and growth through ploughing back of profits.
5) Minimizing cost of capital by developing a sound capital between various securities issued by the company.
6) Coordinating the activities of the finance department with the activities of other departments in the organization.

IX. SCOPE OF FUNCTIONS OF FINANCIAL MANAGEMENT

The finance department of an enterprise performs several functions in order to achieve the above objectives. The scope of finance function is very wide. It consists of the following activities:

1. Estimating the Requirement of Funds

The finance department will estimate the capital requirements of the firm accurately for long term and short term needs. In estimating the capital requirements of the business, finance department must take help of the budgets of various activities of the business prepared by the concerned departments. In the preliminary stage, estimation is done by promoters but in a growing concern it is done by the finance department. Unless the financial forecast is correct, business is likely to run into difficulties due to excess or shortage of funds. Correct estimates ensure the availability of funds as and when they are needed. In estimating the requirement of funds, nature and size of the business, modernization and expansion plan should be given due consideration.

2. **Determining the Capital Structure**

Capital structure means the kind and proportion of different securities for raising the required funds. After determining the total requirement of funds decision regarding the type of securities to be issued and the relative proportion between them is to be taken. The finance department shall determine proper mix of debt and equity. In determining ratios cost of raising finance from different sources, period for which funds are required and several other factors should be considered. A proper balance between risk and returns should be maintained.

3. **Choice of Sources of Finance**

A company can raise funds from different sources e.g. shareholders, debenture holders, bank loans, financial institutions, public deposits etc. Before raising the funds, it has to decide the source from which the funds are to be raised. The choice of the source of finance should be very carefully made by taking a number of factors into account such as cost of raising funds, conditions attached, charge on assets, burden of fixed charges, dilution of ownership and control etc.

4. **Investment of Funds**

The funds raised from different sources should be prudently invested in various assets -short term as well as long term to optimize the return on investment. For taking decisions for the investment of long term funds, a careful assessment of various alternatives should be made through capital budgeting, opportunity cost analysis and many other techniques used to evaluate the investment proposals. A part of the long term funds should be invested in working capital of the company. While taking decision for the investment of funds in long term assets, management should be guided by three basic principles, viz. safety, profitability and liquidity.

5. **Management of Cash**

The responsibility of finance manager is to see that an adequate supply of cash is available at proper time for the smooth running of the business. Cash is needed to purchase raw materials, pay off creditors, to pay to workers and to meet the day to day expenses of the business. Availability of cash is necessary to maintain liquidity and credit- worthiness of the business. Excess cash must be avoided as it costs money. If there is any cash in excess, it should be invested in near cash assets such as investments etc. which may be converted into cash within no time. A cash flow statement should be prepared by the department to know the correct need of cash is essential to achieve the goal of profitability and liquidity.

6. **Disposal of Surplus**

Another prime function of the finance department is to allocate the surplus. After paying all taxes, the available surplus of the business can be allocated for three purposes;

a) For paying dividend to the shareholders as a return on their investment
b) For distributing bonus to workmen and company's contribution to other profit sharing plans
c) For ploughing back of profits for the expansion of business.

7. **Financial Controls**

The financial manager will be under obligation to check the financial performance of the funds invested in the business. Number of techniques are there to evaluate the performance viz. Return on Investment (ROI), budgetary control, cost control, internal audit, ratio analysis and break-even point analysis. The financial manager must lay emphasis on financial planning as well.

X. CONCLUSION

The study reveals related information for efficient and effective utilization of funds and requirement for effective utilization of funds. The aim of financial management is to reduce the problem and ensure fiscal growth of the enterprise. We know that finance is the lifeblood of every business; and its management requires special attention. Financial management is the activity of management which is concerned with the planning, procuring and controlling of the firm's financial resources**.** Organization’s future will depend upon the effective utilization of funds like growth, expanding the company, long run of the company. If funds are used effectively then the organization has healthy growth in all the ways.

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